EGYPT-USSR: Egyptian Deputy Premier and Foreign Minister Mahmud Riad arrived in Moscow on 29 June on the first leg of a diplomatic swing that also includes stops in Prague, Budapest, and Belgrade before his return to Cairo on 17 July. The exchange of instruments of ratification for the USSR-Egypt Treaty of Friendship and Co-operation was the highlight of Riad's five-day stay in the USSR; he is also holding comprehensive discussions on Middle East developments with Foreign Minister Gromyko and other Soviet officials. One of the subjects Riad seems almost certain to raise is the possibility of direct Soviet-Israeli contacts. [redacted] 25X1

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SAUDI ARABIA - EGYPT: King Faysal's strong endorsement of President Sadat's foreign policies at the conclusion of his seven-day visit to Cairo last Saturday should strengthen the Egyptian leader's hand in pursuing Middle East negotiations. Faysal, in the communiqué issued prior to his departure, stated that Egypt, which shoulders the "biggest burden" in the conflict with Israel, deserves the support of all Arabs. According to the Cairo press, the Saudi Arabian King's extensive discussions with Sadat and other cabinet-level officials ranged over the Middle East negotiations, Faysal's visit to the US in late May, the future of the Persian Gulf, the proposed Arab summit conference, and Jordanian military pressure against the fedayeen. Following up their meetings with fedayeen leader Yasir Arafat, the two heads of state agreed to send a Saudi Arabian and an Egyptian emissary to Amman in an effort to reconcile Jordanian-Palestinian differences. [redacted] 25X1

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PALESTINE NATIONAL COUNCIL MEETING: The ninth session of the Palestine Liberation Organization's (PLO) parliamentary body, the Palestine National Council, now scheduled to meet in Cairo on 7 July, is likely to be as unproductive as previous gatherings. Disputes have already arisen among the representatives of the major fedayeen organizations regarding the distribution of seats at the council, and the date and the site of the meeting have as usual been changed at the last minute. The Popular Front for the Liberation of Palestine (PFLP), which has sent only a token delegation to previous sessions of the council, has decided to participate fully in the coming meeting. [redacted] 25X1 25X1 Both Fatah and PLO Chairman Yasir Arafat may also come under heavy attack by the radical group for allegedly obstructing the unification of the guerrilla movement. [redacted] 25X1 25X1 25X1

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Rising Oil Revenues in Middle East Pose Challenge for the US

During the past year the eight Middle East oil producers (Libya, Saudi Arabia, Iran, Kuwait, Iraq, Algeria, Abu Dhabi, and Qatar) that are members of OPEC have concluded agreements with the oil companies that ensure massive increases in the countries' oil revenues through 1975. Receipts will be raised even further by rising production in most of these countries. Annual oil revenues in the producing countries are expected to swell from less than $6 billion in 1970 to nearly $16 billion in 1975.

With more hard currency the oil states will increase their imports, and as a result there may be a sizable growth in US exports to the area, particularly of capital goods associated with the petroleum industry or with general economic development programs. In addition, there may be a significant increase in US military equipment sales to Iran and Saudi Arabia. US sales to the Middle East oil states, although amounting to only about two percent of total US exports, already greatly exceed US imports from these countries.

At present the transfer to the US of earnings by American oil companies operating in the Middle East is more important to the US balance-of-payments position than commodity trade with the Middle East oil producers. Private American oil investment in the area yields an annual return of $1.6 billion, whereas the US surplus in trade is only one third of this amount.

Prospective increases in Middle East imports will not be sufficient to prevent a huge increase in the foreign-exchange reserves of several of the producing states. Holdings in the eight countries are expected to rise from about $5.6 billion at the end of last year to more than $25 billion at the end of 1975. Reserves are likely to approach $8 billion in each of three countries—Libya, Saudi Arabia, and Kuwait—and holdings in Abu Dhabi and Qatar will be impressively large relative to their populations.

Possession of large amounts of hard currency will make it possible for the Middle East oil exporters to pursue several actions unfavorable to the US. These include nationalization of the oil companies; even if equitable compensation were paid, nationalization would result in considerable damage to the US' balance of payments because of the end of profit repatriation. The increased reserves could also be used to subsidize political movements and less affluent governments in the area; oil money already is being channeled to Egypt, Jordan, and the fedayeen. Moreover, the rise in reserves could be used to bring financial pressure on the West as, for example, by converting dollar assets into gold. Such financial actions, however, probably could not be carried out without some cost to the producing states themselves, and governments of most of these countries have shown little interest in this type of adventurism. 25X1

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TURKEY: The foreign trade law promulgated in April to maximize foreign-exchange earnings by keeping export prices up and import prices down is having detrimental side effects. The government is facing enormous problems in implementing a system that calls for the Ministry of Foreign Economic Affairs to set minimum export prices and maximum import prices and to approve almost all trade transactions before they take place. Several large orders have been lost because of governmental delays in responding to export requests. The new program also is reportedly causing a shortage of some imported raw materials. Unless the system is modified before the major agricultural export season begins this fall, it could have a serious effect on Turkey's foreign-exchange earning capability. 25X1

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